

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 AGR-05 NEAE-00

INRE-00 SSO-00 NSCE-00 USIE-00 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /110 W

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O R 021250Z JUL 75

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TO SECSTATE WASHDC IMMEDIATE 9649

INFO AMEMBASSY COLOMBO

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AMEMBASSY ISLAMABAD

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E.O. 11652: N/A

TAGS: EGEN, IN

SUBJ: MRS. GANDHI'S "NEW" ECONOMIC PROGRAM

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REF: A. NEW DELHI 8707 B. NEW DELHI 8668

SUMMARY: IN JULY 1 BROADCAST TO NATION PRIME MINISTER GANDHI OUTLINED ECONOMIC PROGRAM OF APPROXIMATELY 20 MEASURES DESIGNED TO REDUCE PRICES OF ESSENTIAL COMMODITIES, EXPAND PRODUCTION IN VARIOUS SECTORS, IMPROVE THE POSITION OF THE RURAL POOR, AND CARRY OUT OTHER REFORMS. MEASURES ARE CLEARLY DESIGNED TO INCREASE PM'S POLITICAL SUPPORT AND FINANCIAL COST OF PROGRAM DOES NOT APPEAR TO BE TOO HIGH. AS ALWAYS, MUCH WILL DEPEND ON IMPLEMENTATION, ALTHOUGH PRESENT EMERGENCY POWERS MAY INCREASE LIKELIHOOD THAT SOMETHING MEANINGFUL WILL BE ACCOMPLISHED. END SUMMARY.

1. IN HER ANNOUNCEMENT OF ECONOMIC PROGRAMS MRS. GANDHI STRESSED IMPORTANCE OF BRINGING DOWN PRICES OF ESSENTIAL COMMODITIES BY MEANS OF IMPROVED PROCUREMENT AND DISTRIBUTION PROCEDURES. SHE NOTED "REASONABLY SATISFACTORY" FOREIGN RESERVE POSITION THAT WILL ALLOW IMPORTS TO ENSURE SUFFICIENT SUPPLIES. A SYSTEM OF NATIONAL PERMITS WILL BE INTRODUCED TO ALLOW BETTER MOVEMENT OF GOODS. (COMMENT: IN PAST WEEK PRICES OF ESSENTIAL GOODS, SUCH AS WHEAT, PULSES, COOKING OIL AND SUGAR, HAVE COME DOWN IN MARKETS OF NEW DELHI, CALCUTTA AND OTHER PARTS OF COUNTRY. THIS IS PARTLY REFLECTION OF DECLINE IN WHOLESALE PRICE INDEX FOR FOOD ARTICLES SINCE MID-MAY. OTHER REASONS FOR THIS UNUSUAL DOWNTREND INCLUDE HOPEFUL CROP OUTLOOK, COMBINED WITH TIMELY MONSOON RAINS, WHICH HAS RESULTED IN STOCK LIQUIDATION; INCREASED PRODUCTION OF SUGAR AND OILSEED; AND INCREASED COST OF CREDIT MAKING IT MORE DIFFICULT TO HOARD STOCKS. HOWEVER, WE BELIEVE IMPORTANT CAUSE OF RECENT PRICE DECREASES HAS ALSO BEEN FEAR OF PUNITIVE PENALTIES AGAINST HOARDING UNDER NEW EMERGENCY POWERS - REF B. END COMMENT).

2. MRS. GANDHI SAID PRODUCTION SHOULD BE INCREASED BY MEANS OF AN ACCELERATED POWER PROGRAM, INCLUDING ESTABLISHMENT OF NEW SUPER THERMAL PLANTS UNDER THE CENTRAL GOVERNMENT, FIVE MILLION MORE HECTARES UNDER IRRIGATION AND INCREASED OUTPUT OF CONTROLLED VARIETIES OF TEXTILES. IN ADDITION, INVESTMENT PROCEDURES, WILL BE LIBERALIZED AND INVESTMENT LIMIT OF THOSE INDUSTRIES WHICH DO NOT NEED IMPORTS OR GOVERNMENT ASSISTANCE WILL BE RAISED. SHE STATED THAT PLANS FOR WORKER PARTICIPATION IN PRODUCTION PROGRAMS WILL BE INTRODUCED. (SPOKESMAN FOR FEDERATION OF INDIAN CHAMBERS LIMITED OFFICIAL USE

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OF COMMERCE AND INDUSTRY REPORTEDLY SAID THAT NEW ECONOMIC MEASURES CONSTITUTED "SENSITIVE AND REALISTIC PROGRAM" THAT SHOULD BE SUPPORTED).

3. ON THE RURAL FRONT, MRS. GANDHI PLEDGED A REFORM PACKAGE THAT WOULD IMPLEMENT AGRICULTURAL LAND CEILING LEGISLATION; DISTRIBUTE SURPLUS LAND FASTER; ABOLISH BONDED LABOR; INITIATE MORATORIUM ON DEBT OF LANDLESS LABORERS, SMALL FARMERS AND ARTISANS TO VIL-

LAGE MONEY LENDERS; AND REVIEW MINIMUM AGRICULTURAL WAGE LEGISLATION. SHE SAID THAT RURAL HOUSING SITES WILL BE EXPANDED AND THAT LEGISLATION WILL BE INTRODUCED TO CONFER OWNERSHIP RIGHTS ON LANDLESS LABORERS WHO HAD OCCUPIED HOUSE SITES OF THEIR LANDLORDS FOR A CERTAIN PERIOD OF TIME.

4. THE PRIME MINISTER ALSO HAD SOMETHING FOR THE MIDDLE CLASS--AN INCREASE IN THE EXEMPTION LIMIT FOR EVERYBODY'S INCOME TAX FROM RS.6000 TO RS.8000. (COMMENT: WE ESTIMATE THAT THIS MEASURE WILL COST THE GOVERNMENT APPROXIMATELY RS.850 MILLION, OR 10 PERCENT OF THIS FISCAL YEAR'S INCOME TAX REVENUES. END COMMENT). OTHER POLITICALLY POPULAR MEASURES INCLUDED ESTABLISHMENT OF BOOK BANKS, CONTROLLED STUDENT TEXT BOOK PRICES AND INCREASED EMPLOYMENT OPPORTUNITIES FOR THE YOUNG EDUCATED UNEMPLOYED THROUGH WORKER TRAINING AND APPRENTICESHIP PROGRAMS.

5. FINALLY, MRS. GANDHI WARNED AGAINST ECONOMIC CRIMES: URBAN LAND OWNERSHIP WOULD HAVE CEILINGS IN ORDER TO ELIMINATE LAND SPECULATION; SPECIAL SQUADS AND SUMMARY COURTS WOULD ASSESS UNDER-VALUED URBAN PROPERTY; PROPERTIES OF SMUGGLERS WOULD BE CONFISCATED; AND TAX EVASION AND MISUSE OF IMPORT LICENSES WOULD BE SEVERELY PUNISHED.

6. IN ANOTHER DEVELOPMENT THE GOI INTRODUCED A SPECIAL SAVINGS SCHEME REPORTEDLY DESIGNED TO BENEFIT ALMOST TEN MILLION INDUSTRIAL AND OTHER WORKERS. EFFECTIVE JULY 1, SAVINGS DEPOSITS IN VARIOUS PENSION FUNDS WILL EARN TAX-FREE INTEREST AT 10 PERCENT PER YEAR.

7. COMMENT: MRS. GANDHI WARNED AGAINST "MAGIC REMEDIES AND DRAMATIC RESULTS" FROM HER ECONOMIC PROGRAM; SHE SAID HARD WORK AND DISCIPLINE WERE NECESSARY TO MAKE IT WORK. IN OUR JUDGMENT MUCH MORE DEPENDS ON GOI DETERMINATION AND ABILITY TO IMPLEMENT LIMITED OFFICIAL USE

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THESE MEASURES WITH SUSTAINED VIGOR. MANY OF THEM, NOTABLY LAND REFORM AND LIQUIDATION OF RURAL INDEBTEDNESS, ARE OLD PLEDGES THAT HAVE LARGELY REMAINED UNIMPLEMENTED BECAUSE OF PRESSURES FROM THE WELL-TO-DO FARMER LOBBIES WITHIN THE RULING CONGRESS PARTY BOTH AT THE CENTER AND IN THE STATES. THE FINANCIAL COST OF THE NEW ECONOMIC PROGRAM DOES NOT APPEAR TO BE VERY HIGH, ALTHOUGH IT IS DIFFICULT TO PIN THIS DOWN FOR MOST OF THE ANNOUNCED MEASURES. THE ECONOMIC PROGRAM IS CERTAINLY DESIGNED TO BOLSTER THE PRIME MINISTER'S POLITICAL POPULARITY AND WILL PROBABLY PROVIDE THE BASIS OF ANY FUTURE ELECTION CAMPAIGN. THE PRESENT EMERGENCY POWERS MAY INCREASE THE LIKELIHOOD THAT SOME OF THE "NEW" ECONOMIC MEASURES MAY ACTUALLY BE IMPLEMENTED BUT TO WHAT EXTENT THEY WILL CONTRIBUTE TO ANY REAL IMPROVEMENT IN THE WELFARE OF INDIA'S RURAL POOR REMAINS TO BE SEEN.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MARTIAL LAW, POLITICAL REPRESSION, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE08831
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750229-0397
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750791/aaaaddyd.tel
Line Count: 169
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 NEW DELHI 8707, 75 NEW DELHI 8668
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 16 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 MAY 2003 by ShawDG>; APPROVED <19 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MRS. GANDHI'S "NEW" ECONOMIC PROGRAM LIMITED OFFICIAL USE
TAGS: EGEN, IN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006